



FINANCIAL REPORT 2006-2005

FINANCIAL STATEMENTS

AND

**REQUIRED SUPPLEMENTAL
INFORMATION**

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December 8, 2006

Kevin Raymond, Chair
Board of Trustees
Western Washington University
Bellingham, WA 98225

Dear Mr. Raymond:

We are pleased to submit the Annual Financial Report of Western Washington University. The accounts of the University are maintained in accordance with policies and regulations established by Washington State and its Office of Financial Management. This report has been prepared in accordance with generally accepted accounting principles and following the guidance of the Governmental Accounting Standards Board.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

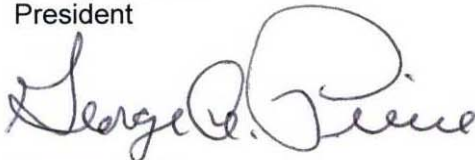
KPMG LLP, Certified Public Accountants, have issued an unqualified ("clean") opinion on the Western Washington University financial statements for the year ended June 30, 2006. This opinion is included in the independent auditor's report.

Management's discussion and analysis, located at the front of the financial section of this report, provides a narrative introduction, overview, and analysis of the basic financial statements. Western Washington University is recognized nationwide as a distinctive public comprehensive university. For the ninth year in a row, Western is ranked second among public master's-granting universities in the West, according to the 2006 U.S. News & World Report college rankings. Only two public schools are ranked in the top 20 among master's-granting universities in the West. Western's national academic excellence and faculty, as well as its prime location, make it an institution "in demand", which will continue to help it weather more difficult economic climates.

Sincerely,



Karen W. Morse
President



George A. Pierce
Vice President for Business and Financial Affairs

BOARD OF TRUSTEES

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Stacy Pederson, Student Trustee
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Dennis Madsen
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Eileen V. Coughlin, Vice President for Student Affairs and Academic Support Services
Robert F. Frazier, Vice President for External Affairs
Stephanie Bowers, Vice President for University Advancement
Mary R. Carlson, Assistant Vice President for Business and Financial Affairs
Shonda L. Shipman, Interim Accounting Director, Fiscal Services and Business Support

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis provides an overview of the financial position and activities of Western Washington University (University) for the years ended June 30, 2006 and 2005. This discussion has been prepared by management and should be read in conjunction with the financial statements and accompanying notes which follow this section.

Presentation of the Financial Statements

The University's financial reports include the Statements of Net Assets, the Statements of Revenues, Expenses, and Changes in Net Assets, and the Statements of Cash Flows.

The statements are formatted following the guidelines of the Governmental Accounting Standards Board (GASB) pronouncements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles, which establish standards for external financial reporting for public colleges and universities. The University's financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred.

Financial Health

The Statements of Net Assets present the financial condition of the University at the end of the last three fiscal years and report all assets and liabilities of the University.

The amounts in these statements represent the assets available to continue the operations of the institution, also identifies how much the institution owes vendors, investors and lending institutions. Finally, the difference between total assets and total liabilities, net assets, is one indicator of the current financial condition of the University. The change in net assets measures whether the overall financial condition has improved or deteriorated during the year.

Below is a condensed view of the Statement of Net Assets as of June 30, 2006, 2005, and 2004:

	2006	2005	2004
	<i>(Dollars in thousands)</i>		
Assets			
Current assets	\$ 63,624	\$ 63,781	\$ 58,824
Non-current assets	25,144	16,202	21,764
Land and capital assets	316,027	304,027	292,536
Total assets	<u>404,795</u>	<u>384,010</u>	<u>373,124</u>
Liabilities			
Current liabilities	26,290	26,966	28,342
Non-current liabilities	74,359	66,983	68,787
Total liabilities	<u>100,649</u>	<u>93,949</u>	<u>97,129</u>
Net Assets			
Invested in capital assets, net	246,343	234,675	226,057
Restricted, non-expendable	3,922	3,419	3,369
Restricted, expendable:	19,108	19,676	18,653
Unrestricted	34,773	32,291	27,916
Total net assets	<u>\$ 304,146</u>	<u>\$ 290,061</u>	<u>\$ 275,995</u>

The University's total assets at the end of fiscal years 2006, 2005, and 2004 were \$405 million, \$384 million, and \$373 million, respectively. This increase of \$32 million in three years is largely the result of the University's on-going capital building program.

Over these last three years, the University has continued working on the campus infrastructure, with the goals of easing the crowded conditions on campus and providing students with state-of-the-art learning facilities. Projects completed or under construction are the Communications Building, new tennis courts, the remodel of the Shannon Point Undergraduate Center, and the Academic Instructional Center, which is scheduled to open for classes winter quarter 2008. University Residences has also undertaken major capital projects, including the two phase renovation of the Higginson Hall student residence and the remodel of the Arntzen Hall food service facility.

The University's current investments decreased during fiscal 2006 while current cash and cash equivalents have increased. This change results from increased investments in the LGIP offering higher interest rates in liquid investments over the rates in investment vehicles. Noncurrent assets have increased during 2006 primarily due to the investment of the remaining \$8.1 million in bonds issued by University Residences and the addition of completed capital assets.

Western's current liabilities over the last three years, while fluctuating slightly due to increased deferred revenue and the current portion of bonds payable, have remained steady. Noncurrent liabilities have increased due to the following bond issues by the Housing and Dining System:

In February 2006, the System issued \$9.62 million in revenue bonds to provide funding for the renovation of the Higginson Hall student residence.

In 2005, the System issued \$12.6 million in revenue refunding bonds to defease \$11.1 million in bonds issued in 1999 that were callable beginning in 2011. Management expects the refunding will provide a savings of approximately \$662,000 over the life of the bonds.

The University reports its "equity" in the following categories:

Invested in Capital Assets, net of related debt consists of the University's investments in land, buildings, infrastructure, furniture and equipment. These assets are shown at their acquisition cost, net of accumulated depreciation and outstanding debt obligations related to them.

Restricted Net Assets:

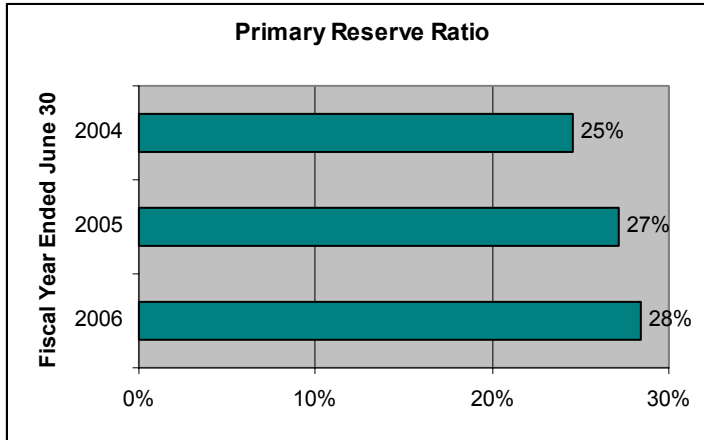
- *Nonexpendable* - consists of funds on which the donor or other external party has imposed the restriction that the corpus is not available for expenditures but for investment purposes only.
- *Expendable* - resources which the University is legally or contractually obligated to spend in accordance with time or purpose restrictions placed upon them by donors or other external parties. Some are restricted for use as loans to students or scholarships for students, others for research projects and others for capital projects.

Unrestricted Net Assets – includes all other funds available to the institution for the general and educational purposes of the University. Unrestricted assets are often internally designated for specific purposes, or to comply with bond covenants.

Ratio Analysis

Ratios can be helpful in evaluating the University's financial health and performance. Following are some strategic ratios to aid in analysis. We believe that the following two ratios will help provide a clear, high level assessment of the overall financial picture of the institution.

Primary Reserve Ratio



The Primary Reserve Ratio measures the financial strength of the institution and its component unit by comparing expendable net assets to total expenses. Expendable net assets represent those assets that the institution can access quickly and spend to satisfy its obligations. Expenses, rather than revenues, are used in the calculation since they are a better indicator of operating size, are less volatile generally, and are under greater management control. An upward trend in this ratio indicates a strengthening of financial condition.

Western's ratio has increased each year. The current year's increase is a result of the University's conservation of resources.

progressive increases in Unrestricted Net Assets. These have increased by 7.6% from 2005 to 2006 and by 15.6% from 2004 to 2005.

Statement of Revenues, Expenses, and Changes in Net Assets

The changes in total net assets, as presented on the Statement of Net Assets, are detailed in the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The statement presents the University's results of operations. In accordance with GASB reporting principles, revenues and expenses are classified as operating, non-operating or other.

In general, operating revenues are those received for providing goods and services to the customers of the institution, primarily students. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues. Basically this is the income from and the cost of carrying out the mission of Western Washington University.

Non-operating revenues are monies received for which goods and services are not provided. Under GASB reporting principles, state appropriations are classified as non-operating revenues. Investment income is also classified as non-operating revenue.

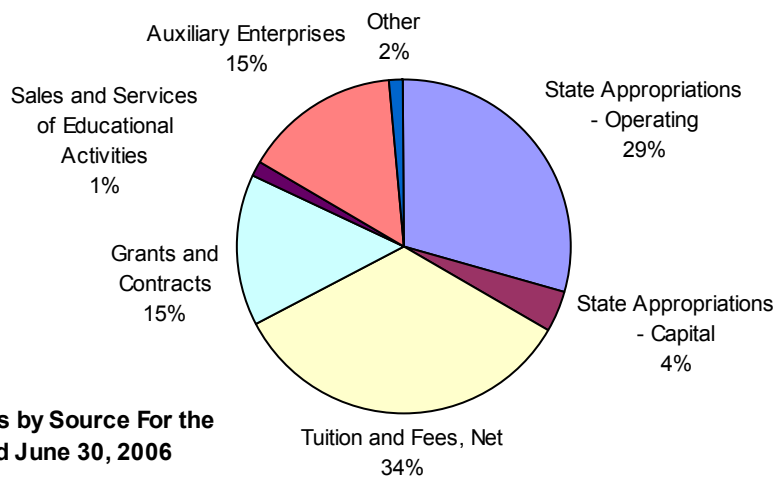
Following is a condensed view of the Statement of Revenues, Expenses, and Changes in Net Assets for the fiscal years ended June 30, 2006, 2005, and 2004:

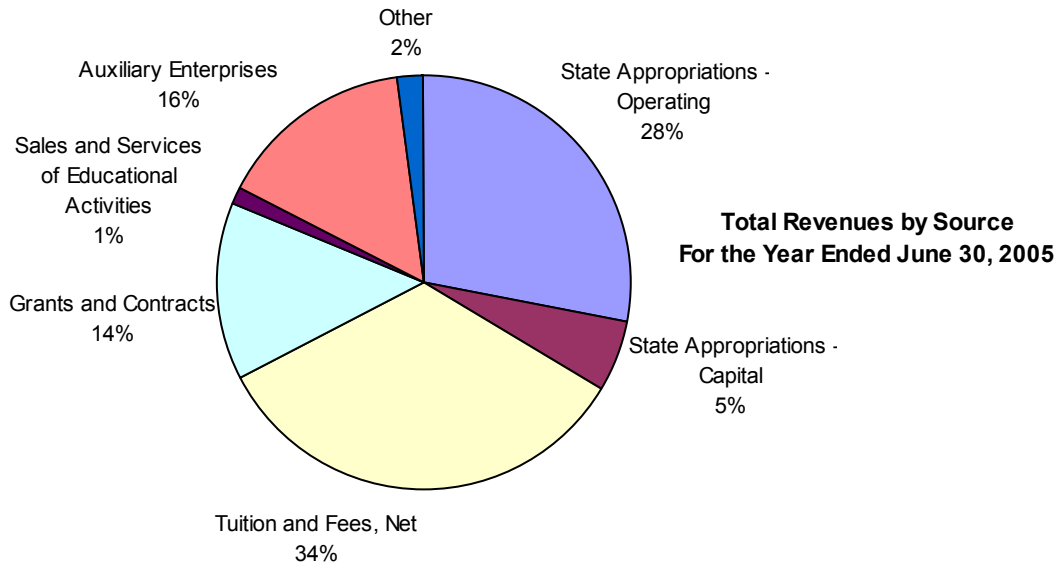
	2006	2005	2004
	<i>(Dollars in thousands)</i>		
Operating revenues	\$ 139,116	\$ 132,668	\$ 122,604
Operating expenses	198,842	188,789	177,138
Income (loss) from operations	<u>(59,726)</u>	<u>(56,121)</u>	<u>(54,534)</u>
State appropriations revenue	62,901	58,015	56,273
Other non-operating revenues	5,378	4,028	3,677
Non-operating expenses	<u>(3,417)</u>	<u>(3,038)</u>	<u>(2,218)</u>
Income (loss) before other revenues	5,136	2,884	3,198
Other revenues	<u>8,949</u>	<u>11,181</u>	<u>17,141</u>
Increase in net assets	14,085	14,065	20,339
Net assets, beginning of year	<u>290,061</u>	<u>275,996</u>	<u>255,657</u>
Net assets, end of year	<u>\$ 304,146</u>	<u>\$ 290,061</u>	<u>\$ 275,996</u>

Over the last year, State appropriation revenues for operations increased from \$58 million to \$62.9 million, an 8% increase. The University increased tuition by approximately 6% in 2006 and by 7% for 2005 and 2004 due to increased rates. Enrollment increased an average of 1% per year from an average annual headcount of 12,193 in 2004 to 12,518 in 2006.

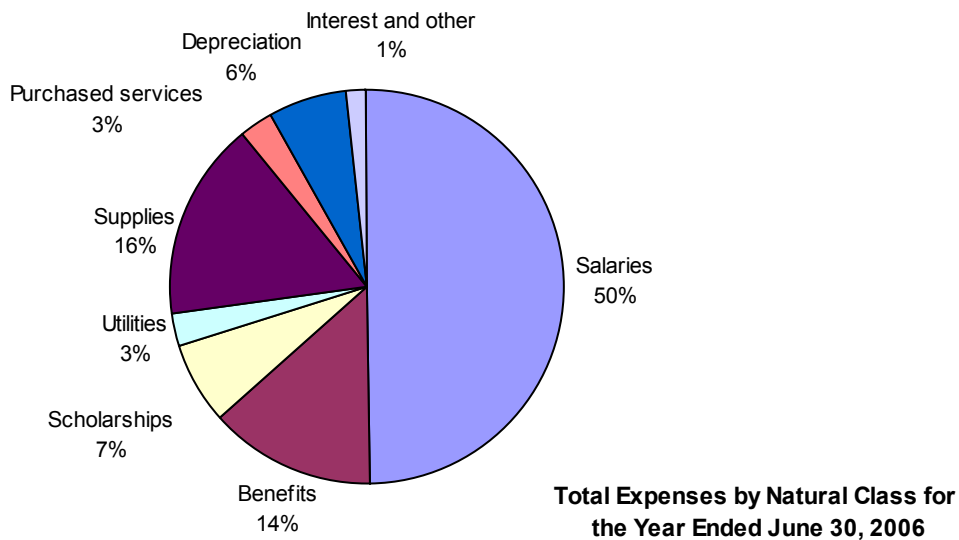
The University's largest component of revenue is tuition and fees, followed closely by State Appropriations.

The Capital appropriation received for the 2005-2007 biennium was the largest ever received by the University. Over the past three years, the increases in State Capital appropriation revenues have funded much needed construction of academic facilities and related infrastructure improvements such as new tennis courts and the remodel of the Shannon Point Undergraduate Center to meet Western's current and future enrollment.

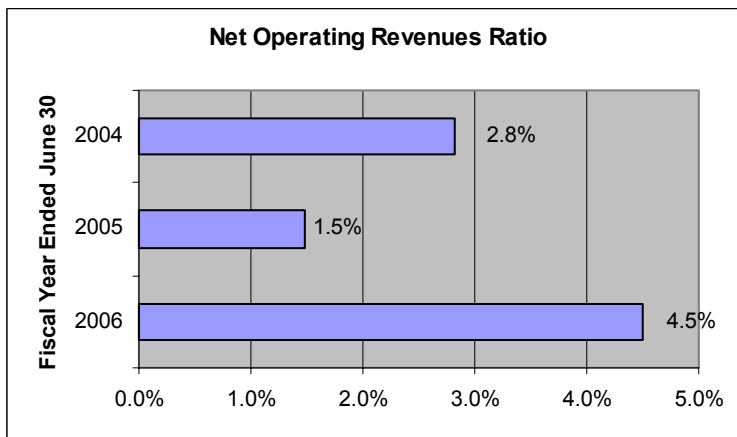
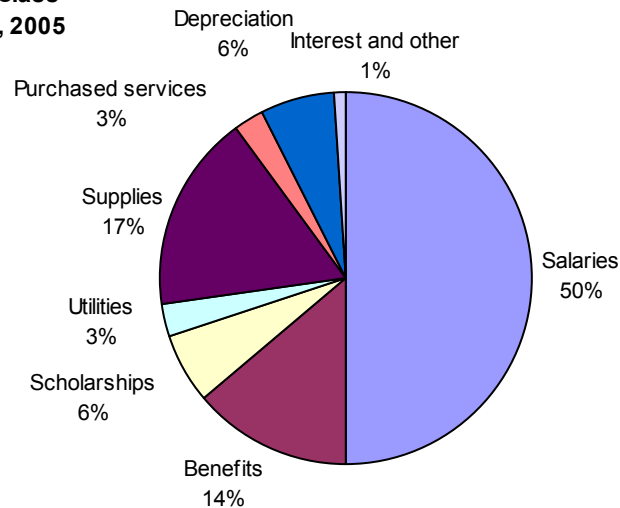




During the current fiscal year, total expenses increased by 5.4% or \$10.4 million versus an increase in fiscal 2005 of 6.9% or \$12.4 million. Increases are due primarily to increased salary and benefit costs in fiscal year 2006 and increased scholarships awarded to eligible students.



The University increased faculty and exempt salaries by 2.0% in 2005 and 4.5% in 2006. Classified staff also received pay increases of 3.2% in 2006. Utilities increased approximately \$766,000 due to higher usage rates as did purchased and personal services. The increase in personal services is a result of costs associated with legal representation during labor negotiations.

**Total Expenses by Natural Class
 For the Year Ended June 30, 2005**


Net Operating Revenues Ratio

The Net Operating Revenues Ratio indicates whether total operating activities of the institution and its component unit resulted in a surplus or deficit. This displays if the institution is “living within its means”. A large surplus or deficit directly impacts the amount of funds added or subtracted from net assets, thereby affecting the primary reserve ratio.

Although net operating revenues ratio decreased between fiscal 2004 and 2005, Western was able to add to its reserves as a result of the additions to capital assets.

Economic Factors That Will Affect the Future

The State legislature appropriated \$400,000 in planning funds to support faculty studies of model facilities and the assessment of feasibility for projects involving the presence of the University on the Bellingham waterfront. Western’s presence on the waterfront will provide unique educational and community opportunities.

In October 2006, the University purchased the Lincoln Creek property adjacent to the campus for approximately \$2.6 million dollars. This land will be utilized as a park and ride facility to promote alternative transportation methods to campus.



KPMG LLP
Suite 900
801 Second Avenue
Seattle, WA 98104

Independent Auditors' Report

The Board of Trustees
Western Washington University:

We have audited the accompanying financial statements of Western Washington University and its discretely presented component unit as of and for the years ended June 30, 2006 and 2005, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Housing and Dining Systems, Student Recreation Center, or the Western Associated Students Bookstore, departments of the University as of and for the year ended June 30, 2005, which statements reflect total assets constituting 29% and total revenues constituting 18%, of the related totals. In addition, we did not audit the financial statements of Western Washington University Foundation, a discretely presented component unit. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above departments and component unit, are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Western Washington University and of its discretely presented component unit as of June 30, 2006 and 2005, and the changes in its financial position and, where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 2 to the financial statements, the Foundation changed its policy for valuing real estate held for investment as of June 30, 2006.

The management's discussion and analysis on pages 4 through 9 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

November 3, 2006

STATEMENTS OF NET ASSETS
As of June 30, 2006 and 2005

Assets	2006	2005
Current assets:		
Cash and cash equivalents (Note 3)	\$ 22,538,278	\$ 7,948,818
Investments (Note 4)	29,592,796	42,092,403
Due from State Treasurer	1,630,880	2,189,598
Funds with State Treasurer (Note 5)	3,481,192	4,837,276
Interest receivable	1,519,490	1,212,164
Accounts receivable, net (Note 6)	3,065,681	4,057,641
Prepaid expenses	127,023	1,770
Inventories (Note 8)	1,668,863	1,441,656
Total current assets	63,624,203	63,781,326
Noncurrent assets:		
Cash and cash equivalents (Note 3)	197,148	203,189
Investments (Note 4)	17,247,584	8,231,085
Student loan receivable, net (Note 7)	7,698,631	7,766,946
Land (Note 9)	9,269,370	9,269,370
Capital assets, net (Note 9)	306,758,118	294,758,456
Total non-current assets	341,170,851	320,229,046
Total assets	404,795,054	384,010,372
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	10,699,458	11,651,871
Deposits payable	2,182,628	1,634,393
Deferred revenues	4,070,745	4,586,829
Compensated absences (Note 11)	5,986,630	5,738,798
Current portion of bonds and notes payable (Notes 13-15)	2,805,752	2,368,817
Deposits held in custody for others	544,977	985,143
Total current liabilities	26,290,190	26,965,851
Noncurrent liabilities:		
Bonds and notes payable (Notes 13-15)	74,358,544	66,983,690
Total Liabilities	100,648,734	93,949,541
Net Assets		
Invested in capital assets, net of related debt	246,343,280	234,675,319
Restricted for:		
Nonexpendable: scholarships and professorships	3,922,207	3,419,017
Expendable:		
Instruction and research	2,034,403	1,894,244
Loans	10,848,377	10,533,578
Capital Projects	6,225,226	7,247,723
Unrestricted	34,772,827	32,290,950
Total net assets	\$ 304,146,320	\$ 290,060,831

See Accompanying Notes to the Financial Statements

STATEMENTS OF FINANCIAL POSITION
As of June 30, 2006 and 2005
ASSETS

	<u>2006</u>	<u>2005</u>
CASH AND CASH EQUIVALENTS	\$ 1,258,534	\$ 749,800
INVESTMENTS		
Short-term investment pool	5,321,839	4,251,236
Long-term investment pool		
Externally managed investments	23,742,062	21,895,277
Real estate held for investment, net	1,430,000	822,000
Note receivable	492,000	492,000
Annuity and life income investments	5,064,415	5,081,709
Other	115,508	274,930
Total Investments	<u>36,165,824</u>	<u>32,817,152</u>
RECEIVABLES		
Promises to give, net	2,989,000	2,880,796
Other	6,768	4,844
Total Receivables	<u>2,995,768</u>	<u>2,885,640</u>
OTHER ASSETS	14,228	4,219
CAPITAL ASSETS, net	<u>1,144,404</u>	<u>10,677</u>
TOTAL ASSETS	<u>\$ 41,578,758</u>	<u>\$ 36,467,488</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 107,023	\$ 75,300
Due to Western Washington University	444,578	
Annuity and life income obligations	1,853,178	2,006,115
Contingent obligation to Northwest Indian College Foundation	1,051,258	998,701
Total liabilities	<u>3,456,037</u>	<u>3,080,116</u>
NET ASSETS		
Unrestricted	9,148,494	8,035,199
Temporarily restricted	13,429,490	11,662,692
Permanently restricted	15,544,737	13,689,481
Total net assets	<u>38,122,721</u>	<u>33,387,372</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 41,578,758</u>	<u>\$ 36,467,488</u>

See accompanying notes to these financial statements

	2006	2005
Operating Revenues		
Student tuition and fees	\$ 82,548,623	\$ 78,153,151
Less scholarship allowances	<u>(10,323,958)</u>	<u>(9,012,238)</u>
Net student tuition and fees	72,224,665	69,140,913
Federal grants and contracts	16,700,009	16,239,436
State and local grants and contracts	12,652,299	10,808,158
Nongovernmental grants and contracts	1,880,368	1,652,328
Sales and services of educational activities	2,903,382	2,849,666
Interest earned on loans to students	151,364	132,343
Auxiliary enterprises	35,553,161	34,503,407
Less scholarship allowances	<u>(2,949,431)</u>	<u>(2,658,639)</u>
Net auxiliary enterprises	32,603,730	31,844,768
Total operating revenues	<u>139,115,817</u>	<u>132,667,612</u>
Operating Expenses		
Salaries and wages	100,404,526	95,495,024
Benefits	27,690,260	26,382,976
Scholarships and fellowships	13,386,305	11,837,042
Utilities	5,779,778	5,013,782
Supplies and materials	33,190,662	32,682,646
Purchased and personal services	5,535,030	4,967,301
Depreciation	<u>12,855,532</u>	<u>12,409,760</u>
Total operating expenses	<u>198,842,093</u>	<u>188,788,531</u>
Operating loss	(59,726,276)	(56,120,919)
Nonoperating Revenues <Expenses>		
State appropriations	62,901,042	58,014,615
Investment income	5,101,824	3,985,943
Interest on indebtedness	(3,417,385)	(3,038,142)
Gains on endowments	262,077	14,111
Nonoperating rental property income, net	<u>14,962</u>	<u>28,234</u>
Net non-operating revenues	<u>64,862,520</u>	<u>59,004,761</u>
Gain before other revenues, expenses, gains, or losses	5,136,244	2,883,842
Other Revenues		
Capital appropriations	8,449,245	11,131,521
Gifts to permanent endowments	<u>500,000</u>	<u>50,000</u>
Total other revenues	<u>8,949,245</u>	<u>11,181,521</u>
Increase in net assets	14,085,489	14,065,363
Net assets, beginning of year	<u>290,060,831</u>	<u>275,995,468</u>
Net assets, end of year	<u>\$ 304,146,320</u>	<u>\$ 290,060,831</u>

See Accompanying Notes to the Financial Statements

STATEMENTS OF ACTIVITIES & CHANGES IN NET ASSETS
For the year ended June 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	2006
SUPPORT AND REVENUE				
Contributions	\$ 441,420	\$ 3,518,282	\$ 1,855,151	\$ 5,814,853
Less change in allowance for uncollectible promises to give	360	(440)	(170)	(250)
Services and facilities provided by Western Washington University	<u>1,729,833</u>			<u>1,729,833</u>
	2,171,613	3,517,842	1,854,981	7,544,436
Net unrealized gains (losses) on investments	713,933	857,856		1,571,789
Net realized gains (losses) on investments	5,307	285,334		290,641
Interest and dividends	347,512	519,855		867,367
Amortization		26,077		26,077
Fund raising events and other	<u>21,133</u>	<u>547,959</u>	<u>275</u>	<u>569,367</u>
Total support and revenue before net assets released from restrictions	3,259,498	5,754,923	1,855,256	10,869,677
Net assets released from restrictions				
Satisfaction of program restrictions	2,637,587	(2,637,587)		
Satisfaction of spending allocation restrictions	1,444,505	(1,444,505)		
Satisfaction of administration fee restrictions	21,569	(21,569)		
Change in restrictions	<u>47,893</u>	<u>(47,893)</u>		
Total support and revenue	<u>7,605,175</u>	<u>1,409,246</u>	<u>1,855,256</u>	<u>10,869,677</u>
EXPENSES AND CHANGE IN VALUATION OF ANNUITY OBLIGATIONS				
Program services and grants	4,351,719			4,351,719
Management and general - WWU in-kind	873,214			873,214
Management and general - other	255,187			255,187
Fund raising - WWU in-kind	856,619			856,619
Fund raising	<u>183,531</u>			<u>183,531</u>
Total expenses	6,520,270			6,520,270
Change in valuation of annuity obligations	<u>(28,390)</u>	<u>224,371</u>		<u>195,981</u>
Total expenses and change in valuation of annuity obligations	<u>6,491,880</u>	<u>224,371</u>		<u>6,716,251</u>
CHANGE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
	1,113,295	1,184,875	1,855,256	4,153,426
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE				
		581,923		581,923
CHANGE IN NET ASSETS	<u>1,113,295</u>	<u>1,766,798</u>	<u>1,855,256</u>	<u>4,735,349</u>
NET ASSETS, beginning of year	<u>8,035,199</u>	<u>11,662,692</u>	<u>13,689,481</u>	<u>33,387,372</u>
NET ASSETS, end of year	<u>\$ 9,148,494</u>	<u>\$ 13,429,490</u>	<u>\$ 15,544,737</u>	<u>\$ 38,122,721</u>

See accompanying notes to these financial statements

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the year ended June 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	2005
SUPPORT AND REVENUE				
Contributions	\$ 2,306,393	\$ 3,986,678	\$ 1,013,871	\$ 7,306,942
Less estimated annuities and income payable				
Less change in allowance for uncollectible promises to give	(1,020)	(10)	(8,340)	(9,370)
Services and facilities provided by Western Washington University	<u>1,618,051</u>			<u>1,618,051</u>
	3,923,424	3,986,668	1,005,531	8,915,623
Net unrealized gains (losses) on investments	543,063	712,216		1,255,279
Net realized gains (losses) on investments	257	416,094		416,351
Interest and dividends	310,764	489,351		800,115
Amortization		22,000		22,000
Fund raising events and other	<u>25,704</u>	<u>389,461</u>		<u>415,165</u>
Total support and revenue before net assets released from restrictions	4,803,212	6,015,790	1,005,531	11,824,533
Net assets released from restrictions				
Satisfaction of program restrictions	3,960,420	(3,960,420)		
Satisfaction of spending allocation restrictions	318,938	(318,938)		
Satisfaction of administration fee restrictions	191,078	(191,078)		
Change in restrictions	<u>185,411</u>	<u>(252,113)</u>	<u>66,702</u>	
Total support and revenue	<u>9,459,059</u>	<u>1,293,241</u>	<u>1,072,233</u>	<u>11,824,533</u>
EXPENSES AND CHANGE IN VALUATION OF ANNUITY OBLIGATIONS				
Program services and grants	4,517,109			4,517,109
Management and general - WWU in-kind	908,861			908,861
Management and general - other	211,546			211,546
Fund raising - WWU in-kind	709,190			709,190
Fund raising	<u>160,313</u>			<u>160,313</u>
Total expenses	6,507,019			6,507,019
Change in valuation of annuity obligations	<u>21,007</u>	<u>168,390</u>		<u>189,397</u>
Total expenses and change in valuation of annuity obligations	<u>6,528,026</u>	<u>168,390</u>		<u>6,696,416</u>
CHANGE IN NET ASSETS	2,931,033	1,124,851	1,072,233	5,128,117
NET ASSETS, beginning of year	<u>5,104,166</u>	<u>10,537,841</u>	<u>12,617,248</u>	<u>28,259,255</u>
NET ASSETS, end of year	<u>\$ 8,035,199</u>	<u>\$ 11,662,692</u>	<u>\$ 13,689,481</u>	<u>\$ 33,387,372</u>

See accompanying notes to these financial statements

STATEMENTS OF CASH FLOWS
For the years ended June 30, 2006 and 2005

	2006	2005
Cash flows from operating activities		
Tuition and fees	\$ 72,944,924	\$ 69,507,643
Grants and contracts	31,226,911	28,294,626
Payments to vendors	(58,404,127)	(53,544,240)
Payments to employees for salaries and benefits	(127,958,787)	(121,372,010)
Loans issued to students	(1,961,155)	(1,986,377)
Collection of loans to students	2,033,703	2,012,202
Auxiliary enterprise charges	32,915,245	31,492,536
Sales and services of educational activities	2,968,639	2,933,662
Interest received on loans to students	151,364	132,343
Net cash used by operating activities	(46,083,283)	(42,529,615)
Cash flows from noncapital financing activities		
State appropriations	62,901,042	58,014,615
Direct Lending proceeds	46,913,250	48,671,279
Direct Lending disbursements	(46,985,840)	(48,601,330)
Gifts to permanent endowments	500,000	50,000
Net cash provided by noncapital financing activities	63,328,452	58,134,564
Cash flows from investing activities		
Purchases of investments	(152,422,100)	(140,262,394)
Proceeds from sales of investments	155,728,322	138,937,371
Interest received on investments	4,620,049	3,859,016
Net cash provided by investing activities	7,926,271	2,533,993
Cash flows from capital and related financing activities		
Proceeds from capital debt	10,141,019	13,029,037
Interest earned on bond proceeds	174,449	51,412
Capital appropriations	9,007,963	11,845,860
Permanent fund provided (used) for capital projects	1,356,084	(818,878)
Purchases of capital assets	(25,636,561)	(24,907,031)
Principal paid on capital debt	(2,329,230)	(14,692,572)
Interest paid on capital debt	(3,316,707)	(3,062,735)
Other activities	14,962	28,234
Net cash used by capital and related financing activities	(10,588,021)	(18,526,673)
Net increase (decrease) in cash and cash equivalents	14,583,419	(387,731)
Cash and cash equivalents, beginning of year	8,152,007	8,539,738
Cash and cash equivalents, end of year	\$ 22,735,426	\$ 8,152,007

See Accompanying Notes to the Financial Statements

Reconciliation of Operating Loss to Net Cash Used by Operating Activities

	<u>2006</u>	<u>2005</u>
Operating loss	\$ (59,726,276)	\$ (56,120,919)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation expense	12,855,532	12,409,760
Changes in assets and liabilities		
Accounts receivable	(569,845)	(672,562)
Student loans receivable	68,315	20,055
Inventories	(227,207)	10,098
Prepaid expenses	(125,253)	15,609
Accounts payable and accrued expenses	(215,592)	1,047,544
Deferred revenue	989,589	843,581
Student and other deposits	548,235	(457,060)
Deposits held in custody	71,387	(14,991)
Compensated absences	247,832	389,270
Net cash used by operating activities	<u>\$ (46,083,283)</u>	<u>\$ (42,529,615)</u>

See Accompanying Notes to the Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Financial Reporting Entity**

Western Washington University is a comprehensive, degree granting public university in the State of Washington. It is governed by a Board of eight Trustees appointed by the Governor. These financial statements summarize all the fund types of the University including agency funds.

As defined by generally accepted accounting principles established by the GASB, the financial reporting entity consists of the primary government, as well as its component unit, the Western Washington University Foundation (the Foundation).

The Foundation is a legally separate, tax-exempt entity. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the University in support of its programs. The board is self-perpetuating and consists of 31 members. Although the University does not control the timing or amount of receipts from the Foundation, the majority of the resources or income thereon that the Foundation holds and invests is restricted for the activities of the University by the donors. The Foundation's activity is reported in separate financial statements because of the difference in its reporting model, as further described below.

The Foundation reports its financial results under Financial Accounting Standards Board (FASB) Statement No. 116, *Accounting for Contributions Received and Contributions Made*, and FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*.

As such, certain revenue recognition criteria and presentation features are different from GASB. No modifications have been made to the Foundation's financial information in the University's financial statements for these differences; however significant note disclosures (see Note 2) to the Foundation's financial statements have been incorporated into the University's notes to the financial statements.

The Foundation's financial statements can be obtained by contacting the Foundation at (360) 650-3408.

Financial Statement Presentation

The financial statements are presented in accordance with generally accepted accounting principles and following the guidance given by the GASB.

Basis of Accounting

For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All intra-agency transactions have been eliminated. The University has elected not to apply any FASB pronouncements issued after November 30, 1989.

Cash, Cash Equivalents and Investments

The University records all cash and cash equivalents at amortized cost, which approximates fair value. Investments held by the University are recorded at fair value. See Notes 3 and 4 to the financial statements for additional detail.

Accounts Receivable

Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. It also includes amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are shown net of estimated uncollectible amounts.

Inventories

Inventories are carried at the lower of cost or market value.

Capital Assets

Land, buildings and equipment are recorded at cost or, if acquired by gift, at fair market value on the date of the gift. For equipment, the University's capitalization policy includes all items with a unit cost of \$5,000 or more and an estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred. Interest expense incurred during capital construction is capitalized as part of the building cost. During 2006 and 2005, \$0 and \$467,708 of construction related interest was capitalized, respectively.

Depreciation is computed using the straight line method over the estimated useful lives of the assets, generally 40 to 50 years for buildings, 20 to 25 years for infrastructure and land improvements, 15 years for library resources, and 5 to 7 years for equipment.

Deferred Revenues

Deferred revenues occur when revenues have been collected in advance for tuition and fees and certain auxiliary activities prior to the end of the fiscal year, but relate to the subsequent accounting period.

Net Assets

The University's net assets are classified as follows:

Invested in capital assets, net of related debt - This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of capital assets.

Restricted net assets – expendable - Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Restricted net assets – nonexpendable - Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets - Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet expenses. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

Classification of Revenues

The University has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues - Operating revenues include activities that have the characteristics of exchange transactions such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most Federal, State and local grants and contracts, and (4) interest on institutional student loans.

Non-operating revenues - Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, State appropriations and investment income.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statements of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs are recorded as either operating or

non-operating revenues in the University's financial Statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

Tax Exemption

The University is a tax-exempt organization under the provisions of Section 115(a) of the Internal Revenue Code, and as such is exempt from federal income taxes on related income.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

2. COMPONENT UNIT

The Foundation presents information about its financial position and activities according to the following three classes of net assets, depending on the existence and nature of donor restrictions:

Unrestricted net assets – Support received that is not subject to donor-imposed restrictions and over which the Board of Directors has discretionary control is classified as unrestricted.

Temporarily restricted net assets – Support received subject to donor-imposed use restrictions or time restrictions that will be met either through actions of the Foundation or by the passage of time is classified as temporarily restricted. In the period donor restrictions are met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Support received subject to donor-imposed restrictions stipulating that funds be invested in perpetuity is classified as permanently restricted. In accordance with purposes stipulated by the donors, earnings from such funds may be either unrestricted or temporarily restricted.

Change in accounting principle - The Foundation has elected to change its accounting treatment for real estate held for investment as of June 30, 2006. Previously, the Foundation recorded these investments at the estimated fair value on the date of the donation. The new policy is to record these investments at their estimated value.

3. CASH AND CASH EQUIVALENTS

At June 30, 2006 and 2005, the carrying amount of cash and cash equivalents is \$22,538,279 and \$8,152,007 respectively. The carrying amount of cash and cash equivalents approximates the market value.

All cash, except for change funds, is covered by the Federal Deposit Insurance Corporation (FDIC), by collateral held in a multiple financial institution, or by collateral pool administered by the Washington Public Deposit Protection Commission (PDPC).

4. INVESTMENTS

To maximize investment income, the University combines unrestricted cash funds from all areas into an investment pool. Investment income is allocated to University departments in proportion to the respective average balances in the investment pool. The University's pool is invested in certificates of deposit. The University held \$29,592,796 and \$42,092,403 in pooled investments at June 30, 2006 and 2005, respectively.

In addition to the investments in the pool, the University separately invested \$6,996,771 and \$1,100,000 of bond proceeds in time certificates of deposits and the LGIP, respectively at June 30, 2006.

As of June 30, 2006 and 2005, the Renewal and Replacement funds of \$2,212,729 and \$2,170,603 were separately invested in time certificates of deposit.

The University Endowment funds are invested under the direction of the Endowment Investment Committee. The committee is responsible for: reviewing and recommending policy to define investment objectives and allowable investments; monitoring investment performances and social concerns and recommending investments, investment managers and/or mutual funds. At June 30, 2006 and 2005, the University's Endowment fund held \$6,938,084 and \$6,060,482 in investments, respectively managed by three investment firms.

Interest Rate Risk

The University manages its exposure to fair value losses in the investment pool by employing a "laddered maturity" strategy, in which investments mature at varying times throughout the year. In accordance with the University's Investment Policy, no pool investment maturity exceeds five years.

Endowment funds are invested under Endowment Fund Policy guidelines. These guidelines include the primary objective of achieving long-term growth using prudent investing practices, and do not limit investment maturities as a means to manage interest rate exposure. At June 30, 2006 and 2005, the University held the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-2	2-3	3-4	>4 years
WWU Investment Pool:						
Time Certificates of Deposit	\$ 29,592,796	\$ 22,709,665	\$ -	\$ 6,883,131	\$ -	\$ -
Renewal and Replacement Funds:						
Time Certificates of Deposit	2,212,729	2,212,729	-	-	-	-
Higginson Hall Bond Proceeds						
LGIP	6,996,771	6,996,771	-	-	-	-
Certificates of Deposit	1,100,000	-	1,100,000	-	-	-
WWU Endowment Funds:						
Mutual Funds - Money Market	1,444,490	1,444,490	-	-	-	-
Time Certificates of Deposit	197,950	197,950	-	-	-	-
U.S. Treasury Fixed Income Securities	1,239,331	-	-	865,618	-	373,713
U.S. Agency Fixed Income Securities	381,267	-	-	-	381,267	-
Equity Securities	3,675,046	-	-	-	-	-
Total Endowment Funds	<u>6,938,084</u>					
TOTAL INVESTMENTS	<u><u>\$ 46,840,380</u></u>					

At June 30, 2005, the University held the following investments:

Investment Type	Fair Value	Investment Maturities (in Years)				
		Less than 1	1-2	2-3	3-4	>4 years
WWU Investment Pool:						
Time Certificates of Deposit	\$ 42,092,403	\$ 30,017,255	\$ 7,804,750	\$ -	\$ 4,270,398	\$ -
Renewal and Replacement Funds:						
Time Certificates of Deposit	2,170,603	1,152,978	1,017,625	-	-	-
WWU Endowment Funds:						
Mutual Funds - Money Market	1,292,492	1,292,492	-	-	-	-
Time Certificates of Deposit	397,615	199,065	198,550	-	-	-
U.S. Treasury Fixed Income Securities	930,908	174,652	-	-	563,738	192,518
U.S. Agency Fixed Income Securities	488,073	375,132	-	-	-	112,941
Equity Securities	2,951,394	-	-	-	-	-
Total Endowment Funds	<u>6,060,482</u>					
TOTAL INVESTMENTS	\$ <u>50,323,488</u>					

Concentration of Credit Risk

Time certificates of deposit are either insured through the Federal Deposit Insurance Corporation (FDIC) or collateralized by assets held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission (PDPC). In accordance with policy, Endowment Fund equity securities consist of domestic stocks that are traded on a national exchange and are of investment grade, international stocks that are represented by American Depository Receipts (ADR), and convertible stocks and bonds.

5. FUNDS WITH STATE TREASURER

The balance of this account at June 30, 2006 and 2005 is \$3,481,192, and \$4,837,276, respectively and represent the University's share of net earnings of the Normal School Permanent Fund and tuition distributions, reduced by expenditures for capital projects and debt service incurred over the years.

The Normal School Permanent Fund, established under RCW 43.79.160, is a permanent endowment fund. Earnings from the investment are either reinvested or used for the benefit of Central Washington University, Eastern Washington University, Western Washington University, and The Evergreen State College. The investing activities are the responsibility of the Washington State Treasurer's Office.

At June 30, 2006 and 2005, the market value of the principal of the Normal School Permanent Fund is \$204,393,313 and \$212,535,866, respectively. The University's earnings on the fund for the year ended June 30, 2006 and 2005 are \$2,508,515, and \$2,407,735, respectively.

The primary sources of new principal for the Normal School Permanent fund are from the revenues, primarily timber sales, from certain state lands. The state lands include one hundred thousand acres granted by the United States government for state normal schools. These lands are managed by the State Department of Natural Resources, for the benefit of the three regional universities and The Evergreen State College.

6. ACCOUNTS RECEIVABLE

At June 30, 2006 and 2005, accounts receivable are as follows:

	<u>2006</u>	<u>2005</u>
Student tuition and fees	\$ 716,131	\$ 1,463,504
Federal, State and private grants and contracts	712,996	1,016,742
Auxiliary enterprises and other operating activities	<u>2,179,378</u>	<u>2,129,947</u>
Total accounts receivable	3,608,505	4,610,193
Less allowance for doubtful accounts	<u>(542,824)</u>	<u>(552,552)</u>
Net accounts receivable	<u>\$ 3,065,681</u>	<u>\$ 4,057,641</u>

7. STUDENT LOANS RECEIVABLE

At June 30, 2006 and 2005, student loans receivable are as follows:

	<u>2006</u>	<u>2005</u>
Federal Perkins student loans	\$ 8,399,553	\$ 8,431,832
Other long-term loans	90,615	93,804
Institutional loans	<u>86,773</u>	<u>108,182</u>
Total student loans	8,576,941	8,633,818
Less allowance for doubtful accounts	<u>(878,310)</u>	<u>(866,872)</u>
Net student loans receivable	<u>\$ 7,698,631</u>	<u>\$ 7,766,946</u>

8. INVENTORIES

At June 30, 2006 and 2005, inventories, stated at cost using various methods: retail, first-in, first-out (FIFO), or average cost, consist of the following:

Location	Valuation Method	<u>2006</u>	<u>2005</u>
Bookstore	Retail	\$ 1,116,783	\$ 908,040
Central Stores	Average Cost	157,067	82,949
Facilities Maintenance	FIFO	172,647	153,247
Lock Shop	FIFO	72,366	83,888
Other inventory	FIFO	<u>150,000</u>	<u>213,532</u>
Total inventory		<u>\$ 1,668,863</u>	<u>\$ 1,441,656</u>

9. LAND AND CAPITAL ASSETS

The depreciation expense for the fiscal years ended June 30, 2006 and 2005 was \$12,855,532 and \$12,409,760, respectively. During 2005, \$467,708 of construction related interest was capitalized. No interest was capitalized during 2006.

Following are the changes in land and capital assets for the year ended June 30, 2006:

	6/30/2005	Additions/ Transfers	Retirements	6/30/2006
Land	\$ 9,269,370	\$ -	\$ -	\$ 9,269,370
Capital assets				
Infrastructure	\$ 40,873,119	\$ 292,534	\$ -	\$ 41,165,653
Buildings	301,223,070	65,484	47,675	301,240,879
Furniture, fixtures and equipment	30,353,503	1,984,788	563,921	31,774,370
Library materials, Art collection	40,743,851	1,924,424	-	42,668,275
Improvements	18,336,136	8,324,320	-	26,660,456
Construction in progress	20,845,706	12,286,928	-	33,132,634
Total capital assets	452,375,385	24,878,478	611,596	476,642,267
Less accumulated depreciation				
Infrastructure	14,829,124	1,414,543	-	16,243,667
Buildings	83,892,387	6,597,360	35,042	90,454,705
Furniture, fixtures and equipment	25,504,362	1,951,879	553,270	26,902,971
Library materials, Art collection	27,995,075	1,599,816	-	29,594,891
Improvements	5,395,981	1,291,934	-	6,687,915
Total accumulated depreciation	157,616,929	12,855,532	588,312	169,884,149
Net capital assets	\$ 294,758,456	\$ 12,022,946	\$ 23,284	\$ 306,758,118

Following are the changes in land and capital assets for the year ended June 30, 2005:

	6/30/2004	Additions/ Transfers	Retirements	6/30/2005
Land	\$ 9,269,370	\$ -	\$ -	\$ 9,269,370
Capital assets				
Infrastructure	\$ 37,935,321	\$ 2,937,798	\$ -	\$ 40,873,119
Buildings	289,797,293	11,425,777	-	301,223,070
Furniture, fixtures and equipment	29,333,964	1,854,893	835,354	30,353,503
Library materials, Art collection	38,921,316	1,822,535	-	40,743,851
Improvements	11,538,168	6,797,968	-	18,336,136
Construction in progress	21,782,401	(636,851)	299,844	20,845,706
	429,308,463	24,202,120	1,135,198	452,375,385
Less accumulated depreciation				
Infrastructure	13,515,052	1,314,072	-	14,829,124
Buildings	77,302,430	6,589,957	-	83,892,387
Furniture, fixtures and equipment	24,406,479	1,932,670	834,787	25,504,362
Library materials, Art collection	26,446,761	1,548,314	-	27,995,075
Improvements	4,371,234	1,024,747	-	5,395,981
	146,041,956	12,409,760	834,787	157,616,929
Net capital assets	\$ 283,266,507	\$ 11,792,360	\$ 300,411	\$ 294,758,456

10. COMPENSATED ABSENCES

The accrued leave balance as of June 30, 2006 and 2005 is \$5,986,630 and \$5,738,798, respectively. This consists of unused vacation leave and compensatory time earned for exempt professionals and classified staff. It also includes a percentage of earned and unused sick leave for exempt professionals and classified staff. For reporting purposes, the entire balance of accrued leave is considered current.

In 2004, the University began participating in the Voluntary Employees' Beneficiary Association – Medical Expense Plan (VEBA-MEP). This plan is a post-retirement medical expense reimbursement account available to professional staff employees of Western. The VEBA-MEP enables the University to deposit funds equivalent to your cash-out of compensable unused sick leave at retirement, tax free to a VEBA trust account on your behalf. Funds deposited into a VEBA-MEP account, as well as the earnings on the account, are not subject to federal income or social security taxes.

During 2006 and 2005, \$69,709 and \$12,111, respectively was contributed to VEBA accounts by the University on behalf of employees.

11. DEFERRED COMPENSATION

The University, through the State of Washington, offers its employees a deferred compensation plan created under Internal Revenue Code Section 457. The plan, available to all State employees, permits individuals to defer a portion of their salary until future years. The State of Washington administers the plan on behalf of the University's employees; the University does not have legal access to the funds.

12. NOTES PAYABLE

The University finances certain land and equipment purchases through certificates of participation issued by the Washington State Treasurer. The University's debt service requirements for these agreements for the next five years and thereafter are as follows:

Fiscal Year	Principal	Interest
2007	\$ 335,752	\$ 38,775
2008	183,830	28,197
2009	154,866	21,452
2010	136,239	15,662
2011	116,943	10,333
2012-2016	147,782	20,406
2017-2021	27,148	802
Total	<u>\$ 1,102,560</u>	<u>\$ 135,627</u>

At June 30, 2006 and 2005, the University had \$3,470,908 and \$3,082,133 of assets financed by certificates of participation with \$2,587,405 and \$2,339,749 of accumulated depreciation, respectively.

13. BONDS PAYABLE

Bonds payable consist of revenue bonds issued by the University for Housing and Dining System facilities, the Student Recreation Center, as well as the University's share of Washington State General Obligation bonds issued for construction of academic buildings. Bonds outstanding are shown on the page following.

Housing and Dining Revenue Bonds

As specified in Master Resolution 97-09, the Housing and Dining System Revenue Fund is used to pay operating expenses, principal and interest, fund debt service reserve accounts required in subsequent series resolutions, pay the renewal and replacement fund and, if desired, retire debt in the open market. Net revenues are pledged to equal at least 125% of debt service. The System has funded a reserve account for debt service, and maintains a renewal and replacement fund equal to at least 5% of outstanding bonds.

The Housing and Dining System has the following outstanding bond issues:

Series 2006 Revenue Bonds with an interest rate of 4% and an aggregate face value of \$9,620,000 at June 30, 2006, which is reported net of the original discount and debt issuance costs of \$90,625.

Series 2005 Revenue and Refunding Bonds with interest rates ranging from 3.375% to 4.50% and an aggregate face value of \$12,490,000 at June 30, 2006, which is reported net of the unamortized original discount and debt issuance costs of \$1,548,752.

Series 2003 Revenue and Refunding Bonds with interest rates ranging from 2% to 4.65% and an aggregate face value of \$13,960,000 at June 30, 2006, which is reported net of the unamortized original issue discount and debt issuance costs of \$387,254.

Series 1999 Junior Lien Revenue Bonds with interest rates ranging from 4.5% to 6.0% and an aggregate face value of \$1,560,000 at June 30, 2006, which is reported net of the unamortized original issue discount and debt issuance costs of \$35,646.

Series 1998 Junior Lien Revenue and Refunding Bonds with interest rates ranging from 4.2% to 5.5% and an aggregate face value of \$14,880,000 at June 30, 2006, which is reported net of the unamortized original issue premium and debt issuance costs of \$597,344.

Recreation Center Revenue and Refunding Bonds

The Recreation Center issued the Revenue Bonds Series, 2002, in February 2002. The bonds bear interest at rates of 4% to 5% and have an aggregate face value of \$26,211,357 at June 30, 2006, which is reported net of the unamortized original issue discount, bond issuance costs, and a loss on defeasance of \$858,643.

State of Washington General Obligation Bonds

The University reimburses the State of Washington annually for debt service payments relating to the State of Washington General Obligations bonds paid from earnings of the Normal School Permanent Fund. The University's debt service for the general obligation bonds was paid in full during the 2005 fiscal year.

Advance Refunding

The scheduled liabilities as of June 30, 2006 and 2005 do not include \$12,030,000 and \$12,465,000, respectively, of Housing and Dining System revenue bonds which were advanced refunded in October 1991 and May 2005, and do not include \$72,963 of general obligations bonds refunded between October 1988 and June 1998.

Government obligations in amounts, maturities and bearing interest rates sufficient to fund retirement of these bonds are held in irrevocable trusts. Neither the assets of the trusts, nor their outstanding obligations, are included in the accompanying balance sheets.

Bonds Outstanding

The debt service requirements for the revenue bonds for the next five years and thereafter are as follows:

Fiscal Year	Housing and Dining Revenue and Refunding Bonds		Student Recreation Center Revenue Bonds	
	Principal	Interest	Principal	Interest
2007	\$ 1,945,000	\$ 2,307,903	\$ 525,000	\$ 1,316,150
2008	2,055,000	2,192,614	545,000	1,295,150
2009	2,135,000	2,111,011	565,000	1,273,350
2010	2,220,000	2,022,665	585,000	1,250,750
2011	2,310,000	1,927,036	615,000	1,225,888
2012-2016	13,035,000	8,122,070	3,500,000	5,700,980
2017-2021	16,220,000	4,924,236	4,440,000	4,761,000
2022-2026	12,590,000	1,309,001	5,655,000	3,536,250
2027-2031	-	-	7,225,000	1,972,750
2032-2033	-	-	3,415,000	258,250
Total	52,510,000	\$ 24,916,536	27,070,000	\$ 22,590,518
Less unamortized costs	570,844		791,153	
Less unamortized loss on defeasance	2,088,777		67,490	
Total	\$ 49,850,379		\$ 26,211,357	

14. LONG-TERM LIABILITIES

Following are the changes in bonds and notes payable for the year ended June 30, 2006 and 2005:

	6/30/2005	Additions	Retirements	6/30/2006	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 68,359,753	\$ 9,752,396	\$ 2,050,413	\$ 76,061,736	\$ 2,470,000
Notes payable	992,754	388,623	278,817	1,102,560	335,752
Total bonds and notes payable	<u>\$ 69,352,507</u>	<u>\$ 10,141,019</u>	<u>\$ 2,329,230</u>	<u>\$ 77,164,296</u>	<u>\$ 2,805,752</u>

	6/30/2004	Additions	Retirements	6/30/2005	Current Portion
Bonds and notes payable					
Revenue and refunding bonds	\$ 70,064,483	\$ 12,635,296	\$ 14,340,026	\$ 68,359,753	\$ 2,090,000
General obligation bonds	67,965	-	67,965	-	-
Notes payable	883,593	393,741	284,580	992,754	278,817
Total bonds and notes payable	<u>\$ 71,016,041</u>	<u>\$ 13,029,037</u>	<u>\$ 14,692,571</u>	<u>\$ 69,352,507</u>	<u>\$ 2,368,817</u>

15. LEASES

The University finances certain equipment through non-cancelable operating leases. At June 30, 2006, future payments under these operating leases are as follows:

Fiscal Year	Lease Payment
2007	\$ 337,156
2008	300,690
2009	289,508
2010	282,247
2011	31,392
Total minimum lease payments	<u>\$ 1,240,993</u>

16. COLLECTIONS

The University has several collections of art that it does not capitalize. The Outdoor Sculpture Collection is a public art collection displayed throughout the entire campus. There are also collections of 19th and 20th century prints and drawings, the Whittington Collection of Asian Ceramics, and the Chair Collection. These collections adhere to the University's policy to (a) maintain them for public exhibition, education, or research; (b) protect, keep unencumbered, care for, and preserve them; and (c) require proceeds from their sale to be used to acquire other collection items. Generally accepted accounting principles permit collections maintained in this manner to be charged to operations at the time of purchase rather than capitalized.

17. OPERATING EXPENSES BY FUNCTIONAL CATEGORIES

In the Statement of Revenues, Expenses and Changes in Net Assets, operating expenses are displayed by natural classifications which include salaries, employee benefits, goods and services, and other similar categories.

Operating expenses by functional classification for the year ended June 30, 2006 and 2005 are summarized as follows:

	<u>2006</u>	<u>2005</u>
Instruction	\$ 74,180,428	\$ 70,718,380
Research	3,270,497	3,094,787
Academic support	9,989,795	9,971,724
Student services	12,602,335	12,065,045
Institutional support	16,624,728	15,504,152
Operation and maintenance of plant	26,245,216	23,403,854
Scholarships and other student aid	13,386,305	11,837,042
Auxiliary enterprise expenditures	<u>42,542,789</u>	<u>42,193,547</u>
Total operating expenses	<u>\$ 198,842,093</u>	<u>\$ 188,788,531</u>

18. PENSION PLANS

The University offers four contributory pension plans: the Washington State Public Employees' Retirement System (PERS) plan, the Washington State Teachers Retirement System (TRS), the Law Enforcement Officers' and Firefighters' Retirement System (LEOFF) and the Western Washington University Retirement Plan (WWURP).

The payroll for the University employees covered by PERS for the year ended June 30, 2006 and 2005 is \$30,130,598 and \$28,654,628; the payroll for employees covered by TRS is \$1,138,113 and \$1,314,355; the payroll covered by WWURP is \$60,878,662 and \$56,099,134; the payroll for LEOFF is \$592,601 and \$575,903, respectively. The total payroll for the University is \$100,287,921 and \$95,166,518.

Western Washington University Retirement Plan (WWURP)
Plan Description

The Western Washington University Retirement Plan (WWURP) is a defined contribution pension plan with a supplemental payment, when required. The plan covers faculty, professional staff, and certain other employees. It is administered by the University. The University's Board of Trustees is authorized to establish and amend benefit provisions.

Contributions to the plan are invested in annuity contracts or mutual fund accounts offered by one or more fund sponsors. Benefits from fund sponsors are available upon separation or retirement at the member's option. Employees have at all times a 100% vested interest in their accumulations.

The supplemental payment plan determines a minimum retirement benefit goal based upon a one-time calculation at each employee's retirement date. The University makes direct payments to qualified retirees when the retirement benefit provided by the fund sponsor does not meet the benefit goal.

Funding Policy

Employee contribution rates, which are based on age, range from 5% to 10% of salary. The University matches the employee contributions. All required employer and employee contributions have been made. The amounts for the current year and two previous years are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Employee	\$4,594,947	\$ 4,336,867	\$ 4,123,995
University	4,597,727	4,335,929	4,124,462

Supplemental Component (Unaudited)

The University received an actuarial evaluation of the supplemental component of the UWRP during fiscal year 2004. The previous evaluation was performed in 1999. The Unfunded Actuarial Accrued Liability (UAAL) calculated as of June 30, 2004 and 1999 was \$1,559,000 and \$1,261,000, respectively, and is amortized over a 19.5 year period. The Annual Required Contribution (ARC) of \$164,000 consists of amortization of the UAAL (\$92,000) and normal cost (or current cost) (\$69,000). The UAAL and ARC were established using the entry age normal cost method. The actuarial assumptions included an investment rate of return of 6% to 8% and projected salary increases ranging from 2% to 4%. Approximately \$108,115 and \$175,590 of the University's payroll was covered under this plan during 2005 and 1999, respectively. The following table reflects the activity in the Net Pension Obligation for the year ended June 30, 2006:

Balance as of June 30, 2004	\$ 39,679
Annual Required Contribution FY05	164,000
Payments to Beneficiaries FY05	<u>(107,712)</u>
Balance as of June 30, 2005	95,967
Annual Required Contribution FY06	164,000
Payments to Beneficiaries FY06	<u>(110,801)</u>
Balance as of June 30, 2006	<u>\$ 149,166</u>

Annual payments for the fiscal years 2006 and 2005 were \$110,801 and \$107,712.

PERS, TRS, and LEOFF

Plan Description

Western Washington University contributes to PERS, TRS, and LEOFF, cost sharing multiple-employer defined benefit pension plans administered by the State of Washington Retirement System.

PERS I provides retirement and disability benefits, and minimum benefit increases beginning at age 66 to eligible non-academic plan members hired prior to October 1, 1977. PERS II and III provide retirement and disability benefits, and a cost-of-living allowance, to eligible non-academic plan members hired on or after October 1, 1977. In addition, PERS III has a defined contribution component, which is fully funded by employee contributions. PERS defined benefit plan benefits are vested after an employee completes five years of eligible service.

TRS I provides retirement and disability benefits and a lump sum death benefit, and minimum benefits increases beginning at age 65 to certain eligible faculty hired prior to October 1, 1977. TRS II and III provide retirement benefits, and cost-of-living allowance to certain eligible faculty hired on or after October 1, 1977. In addition TRS III has a defined contribution component which is fully funded by employee contributions. Defined benefit plan benefits are vested after an employee completes five years of eligible service.

LEOFF II provides retirement benefits and a cost of living allowance for eligible law enforcement officers. LEOFF System benefits are vested after an employee completes five years of eligible service.

The Washington State Legislature establishes or amends benefit provisions for PERS, TRS, and LEOFF. Additional information concerning plan descriptions and benefit provisions is included in a Comprehensive Annual Financial Report publicly available from the Washington System Department of Retirement System, P.O. Box 48380, Olympia, WA, 98504.

Funding Policy

Each biennium, the Office of the State Actuary, using funding methods prescribed by statute, determines actuarially required employee and/or employer contribution rates for PERS, TRS, and LEOFF plans, except where employee contribution rates are set by statute. All employers are required to contribute at the level established by state law.

The required contribution rates expressed as a percentage of current year covered payroll at June 30, 2006 follow:

	<u>Employee</u>	<u>University</u>
PERS		
Plan I	6.00%	2.44%
Plan II	2.25%	2.44%
Plan III	5.00-15.00%	2.44%
TRS		
Plan I	6.00%	2.66%
Plan II	2.21%	2.66%
Plan III	5.00-15.00%	2.66%
LEOFF		
Plan II	6.95%	7.14%

All required employer and employee contributions have been made. The required contributions for the years ending June 30, 2006, 2005, and 2004 are as follows:

	<u>2006</u>	<u>2005</u>	<u>2004</u>
PERS			
Employee	\$1,002,577	\$ 738,047	\$ 726,841
University	723,235	390,500	391,650
TRS			
Employee	40,055	43,517	49,658
University	17,648	10,668	12,238
LEOFF			
Employee	41,201	29,295	28,760
University	42,327	30,417	30,011

19. RISK MANAGEMENT

The University participates in a State of Washington risk management self-insurance program. Premiums to the State are based on actuarially determined projections and include allowances for payments of both outstanding and current liabilities. The University self-insures unemployment compensation for all employees.

In addition, sufficient insurance coverage for property casualty loss on the residence halls and the Wade King Student Recreation Center is maintained in accordance with the Housing and Dining System and Wade King Student Recreation Center Master Bond Resolutions.

The University has been named in several lawsuits. While the final outcome of the lawsuits cannot be predicted with certainty, it is the University's opinion that the ultimate liability will not materially affect the financial statements. The University participates in the State insurance program and is indemnified and will be reimbursed by the State for any claims paid related to these lawsuits.

20. COMMITMENTS

Goods and services for operating and capital projects, contracted for but not yet received, are considered to be commitments at year end. The amount of these commitments at June 30, 2006 and 2005 are:

	<u>2006</u>	<u>2005</u>
Operating	\$ 2,561,392	\$ 2,552,925
Research	1,538,561	1,129,464
Capital projects	<u>12,063,902</u>	<u>10,701,460</u>
 Total commitments	 <u>\$ 16,163,855</u>	 <u>\$ 14,383,849</u>

21. LINCOLN CREEK TRANSPORTATION CENTER

The University entered into a three year lease-purchase agreement on October 20, 2003 to acquire land for use as a park and ride. Lease payments for the three years total \$516,000, of which \$60,000 may be applied to the purchase price of \$2,650,000.

In December 2004, the Federal Transit Administration (FTA) designated \$1,943,557 in grant funding for improvements of the Lincoln Creek Transportation Center. Phase one of the project, including site preparation and initial development, was completed in the fall of 2004 at a cost of \$350,175 and capitalized as leasehold improvements.

During fiscal 2006, \$400,330 of FTA grant funds were spent on environmental assessment, project administration, and pre-design costs.

22. SUBSEQUENT EVENTS

The University exercised its option to purchase the Lincoln Creek property in September 2006. The purchase closed on October 13, 2006. The University will be issuing Washington State Certificates of Participation to finance the purchase of the land.